



Thresholds Working Group
C/- Not-for-profit Unit
Individuals and Indirect Taxes Division
The Treasury
Langton Cres
Parkes ACT 2600

via email: Thresholds@treasury.gov.au

19 March 2021

**Re: Request for feedback and comments on the Consultation questions of the paper
*Increasing financial reporting thresholds for ACNC-registered charities***

PwC welcomes the opportunity to comment on the Treasury's Not-for-profit Unit Thresholds Working Group consultation paper *Increasing financial reporting thresholds for ACNC-registered charities*. We appreciate the work undertaken with the intent to balance regulatory red tape and the need for accountability and transparency in the Australian charity sector.

In response to the matters for comment, we note the following:

1. *Do you consider the proposed new thresholds are suitable? If no, why? If no, what thresholds do you consider appropriate to balance regulatory red tape and the need for accountability and transparency?*

While the proposals appear generally reasonable in terms of balancing the reduction of red tape with a need to maintain transparency and promote accountability, public trust and confidence in the sector, we are concerned about the use of revenue as a threshold for determining the size of a charity.

The adoption of AASB 1058 *Income of Not-for-Profit Entities* has resulted in sometimes significant fluctuations in year-on-year reported revenues. While we are aware that the *Australian Charities and Not-for-profits Commission Act 2012* provides the Commissioner with the ability to continue treating a charity as small, medium or large in such situations, we note that the *New Zealand Accounting Standards Framework* is using expenses to establish reporting tiers for their public benefit entities, and we consider this to be a potentially better measure of a charity's size. To further avoid entities moving regularly between two tiers, there could potentially also be a requirement for the threshold to be reached for two consecutive periods before a charity changes in size. That said, we recognise the greater need to move forward on this project, thus are supportive of increased thresholds even if they remain revenue based.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000,
GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



We further note that the Treasury has estimated a charity saves approximately \$2,400 in professional services expenses annually by moving from medium to small and \$3,000 by moving from a large to a medium charity. In our experience, professional services fees, which we assume to cover both the preparation and audit or review of the financial statements, are much higher than \$2,400, even for a charity that has only little more than \$250,000 revenue. While this would indicate potentially higher cost savings for those charities dropping down a tier, we are concerned that using these cost estimates as a guide also underestimates the cost for those charities that are still required to prepare financial statements and have them audited or reviewed, and the time needed by management to understand the financial reporting rules and complete the financial statements.

Finally, we are not aware of many charities that take advantage of the relief of only needing a review rather than a full audit of their financial statements. Whilst this may be due to the size of the charities we audit, we noticed that the Annual Information Statement (AIS) currently does not ask for this information and therefore it is not readily observable from the ACNC's records how many charities do in fact take advantage of this relief. We encourage the ACNC to commence collecting this information with a view to consider in longer term whether to revisit the requirements for the middle tier.

2. *In your view, is it more important for the ACNC to increase reporting thresholds as soon as Commonwealth legislative priorities allow, or for the increased thresholds to be increased simultaneously across all jurisdictions consistent with a longer timeframe?*

In our view it is more important for the ACNC thresholds to be increased as soon as possible and to encourage the States and Territories to align with the ACNC reporting requirements.

3. *What lead in time would you consider suitable for charities to make the necessary changes to their reporting processes?*

In line with our response to question 2, it is important for the ACNC thresholds to be increased as soon as possible. As this is providing relief, we believe no significant lead time would be required.

4. *Other comments*

We recommend working with the AASB in clarifying the reporting requirements and ensuring the Not-for-profit financial reporting framework strikes the right balance between cost/benefits and user needs. The ACNC legislation or regulation should determine who is required to report, and AASB should determine what each tier is reporting.



While small charities will not be required to prepare financial reports that comply with Australian Accounting Standards (AAS), we note that they are still required to report financial information in their AIS. To ensure those reported amounts are comparable between charities, we encourage the ACNC to develop more detailed guidance on how these amounts should be determined. For example, it is not clear whether entities still need to comply with the recognition and measurement requirements of AAS when they are reporting assets and liabilities and have stated that they use the accruals basis of reporting.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 8350 or regina.fikkers@pwc.com if you would like to discuss our comments further.

Yours sincerely,

A handwritten signature in black ink that reads 'Regina Fikkers'.

Regina Fikkers
Partner, PricewaterhouseCoopers